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FEDERAL COMMUNICATIONS COMMISSION
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BEFORE THE
FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON, D.C. 20554

In the Matter of	
Access Charge Reform	CC Docket No. 96-262
Price Cap Performance Review for Local Exchange Carriers	CC Docket No. 94-1
Low-Volume Long Distance Users	CC Docket No. 99-249
Federal-State Joint Board on Universal Service	CC Docket No. 96-45

COMMENTS
of the
GENERAL SERVICES ADMINISTRATION

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Summary

In these Comments, GSA addresses a proposal by the Coalition for Affordable Local and Long Distance Services ("CALLS") to allow local exchange carriers ("LECs") under price caps to elect regulation under a different set of rules concerning interstate access charges and universal service fund ("USF") contributions.

GSA agrees with CALLS that the proposed plan has important benefits for end users, including significant potential reductions in interstate message toll rates. However, GSA explains that the Commission should adopt several modifications in the proposed plan to foster competition among all carriers. For example, GSA urges the Commission not to employ the CALLS proposal as an "elective" regulatory framework because interstate access charge structures and the regulations concerning USF contributions should be uniform for all price cap LECs.

Also, GSA recommends several revisions in the proposed plan for recovery of common line revenue requirements through Presubscribed Interexchange Carrier Charges ("PICC"). For example, the CALLS plan combines subscriber line charges ("SLCs") and PICCs for all types of access facilities except business multi–lines. GSA urges the Commission to adopt a plan that also combines SLCs and PICCs for business multi–lines so that the non–traffic sensitive revenue requirements for all types of access facilities are billed directly to end users. Moreover, GSA recommends that the Commission adopt a lower cap for business multi–line PICCs than CALLS suggests in its plan.

Finally, GSA urges the Commission to revise the CALLS proposal to prohibit carriers from recovering USF contributions as a percentage of retail revenues. GSA explains that this procedure would reverse the gains of access charge reform and not significantly benefit low income callers.

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COMMENTS of the GENERAL SERVICES ADMINISTRATION

The General Services Administration ("GSA") submits these Comments on behalf of the customer interests of all Federal Executive Agencies ("FEAs") in response to the Commission's Notice of Proposed Rulemaking ("Notice") released on September 15, 1999. The Notice seeks comments and replies on a proposal by the Coalition for Affordable Local and Long Distance Services ("CALLS") for revisions in rules concerning interstate access charges and universal service fund ("USF") contributions. CALLS suggests that all local exchange carriers ("LECs") under price cap regulation could elect to be under this proposed regulatory framework.

I. INTRODUCTION

Pursuant to Section 201(a)(4) of the Federal Property and Administrative Services Act of 1949, as amended, 40 U.S.C. 481(a)(4), GSA is vested with the responsibility to represent the customer interests of the FEAs before Federal and state regulatory agencies. From their perspective as end users, the FEAs have consistently supported the Commission's efforts to bring the benefits of competitive markets to consumers of all telecommunications services.

On July 29, 1999, CALLS submitted a proposal for changes in the regulatory procedures for price cap carriers to be implemented over a five-year period starting in January 2000.[1] The members of the coalition developed the plan as "a comprehensive solution to the carriers' access charge, universal service and price cap concerns."[2]

The proposed plan addresses several facets of the Commission's rules concerning access charges and USF contributions. Specifically, CALLS recommends that the Commission take steps to:

- modify the current system of common line charges by combining carrier and subscriber line charges into a single flat–rated subscriber line charge ("SLC") for several types of lines;
- authorize incumbent LECs to increase SLCs over the next four years;
- establish a "social compact" under which traffic–sensitive switched access rates will decline by approximately 50 percent and then be frozen at the reduced levels until July 2004;
- establish a $650 million a year Federal Universal Service Fund ("USF") that will purportedly eliminate subsidies implicit in the existing system of interstate access charges; and
- permit limited geographical deaveraging of access charges under specified conditions.[3]

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1 Notice, para. 1.

2 *Id.*

3 *Id.*, para. 2 and Appendix C.

All LECs under price cap regulation electing to participate in the plan would be subject to its conditions. The Commission's surveillance of other carriers would continue under the Commission's present rules, unless modified by subsequent orders.[4]

The thirteen LECs under price cap regulation collectively provide local exchange services to well over 90 percent of the residence and business users in the nation.[5] Thus, adoption of the proposed plan would have a direct impact on the majority of end users (government, business and residential), and also potentially serve as a model for rules that pertain to the activities of any carriers which did not chose to participate in the plan.

II. THE COMMISSION SHOULD REQUIRE SEVERAL MODIFICATIONS IN THE PROPOSED PLAN TO FOSTER ADDITIONAL COMPETITION.

From its perspective as an end user of telecommunications services, GSA believes that the proposed plan has many beneficial features. As its proponents explain, reliance on implicit support from interstate access charges is neither consistent with the development of more competition nor conducive to the introduction of new technologies such as packet switched networks.[6]

The proposed regulatory system provides benefits to a wide group of parties, and resolves several standing disputes. For example, in return for reduced access charges, incumbent LECs will be permitted to increase SLCs levied on the majority of subscribers. Moreover, with rate deaveraging incumbent LECs will be able to compete more effectively in urban markets where competitors are establishing

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4 *Id.*, paras. 1–2.

5 *Id.*, para. 10; and Common Carrier Bureau, Industry Analysis Division, *Preliminary Statistics of Communications Common Carriers*, May 28, 1999, Table 2.10.

6 Notice, Appendix C, p. 1.

footholds. In addition, a substantial USF will help ensure that LECs in rural areas continue to receive high–cost support so that they can meet competition and offer advanced services to their customers.

In addition to providing benefits for LECs, the CALLS plan helps other participants in telecommunications markets. For example, IXCs will have opportunities to cut long distance charges, thus stimulating demand in the highly price elastic message toll market. Also, Internet Service Providers ("ISPs") will not be required to make USF contributions, so that these firms will have more resources available to deploy facilities and services to meet expanding demands by consumers.

The threshold issue identified in the Notice is whether the Commission should adopt the CALLS proposal in its entirety, as requested by the group's members.[7] Also, the Notice invites parties who believe that modifications should be made to suggest alternative regulatory procedures.[8]

In summary, GSA believes that the proposed plan would have diverse benefits for end users, including reductions in message toll charges and greater opportunities for competition among carriers in some local service markets. In spite of the significant benefits, however, GSA urges the Commission to require several revisions to the CALLS proposal. For example, procedures governing access charge and universal service initiatives should apply to all similarly situated firms. Moreover, even when extended to encompass all carriers, some of the proposed terms should be modified so that consumers will receive benefits of greater competition and lower prices for telecommunications services.

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7 *Id.*, para. 5.

8 *Id.*

III. INTERSTATE ACCESS CHARGE STRUCTURES AND RULES CONCERNING UNIVERSAL SERVICE FUND CONTRIBUTIONS SHOULD BE UNIFORM FOR ALL PRICE CAP LECs.

From GSA's perspective, individual carriers should not be allowed to obtain an advantage over their actual or potential competitors by submitting to regulation under a separate framework containing substantially different regulatory requirements. Any plan that is adopted by the Commission should apply to all LECs under price cap regulation.

The CALLS membership includes AT&T Communications, Bell Atlantic, BellSouth, GTE, SBC Communications Corp. and Sprint Corp.[9] Collectively, these carriers account for a substantial portion of interexchange and local exchange revenues, but several large IXCs, scores of smaller IXCs, and several LECs under price cap regulation are not joining in the proposal.

The plan is expressly intended to apply only to carriers who voluntarily elect to participate.[10] Thus, the absence of numerous carriers from the proposing group foretells that many carriers providing interexchange and local exchange services would not ultimately be subject to the provisions of the plan.

With several modifications, the CALLS proposal could provide benefits to *all* ratepayers and be suitable for *all* LECs under price cap regulation. GSA urges the Commission to employ the same structure of interstate access charges and universal service funding requirements for all LECs under price cap rules. Moreover, the Commission should require all LECs to offer access to all IXCs under the same rates, terms and conditions.

9 *Id.*, Appendix C, p. 1.

10 *Id.*, para. 1.

The Telecommunications Act prohibits incumbent LECs from discriminating among interconnecting carriers.[11] The legislation requires all incumbent LECs to provide interconnections with their networks "for the transmission and routing of telephone exchange service and exchange access" under rates, terms and conditions that are just, reasonable and non–discriminatory.[12] In the legislation, "exchange access" is defined "the offering of access to telephone exchange services for the purpose of the origination or termination of telephone toll services."[13]

Moreover, in addition to discriminating among carriers, two distinct sets of regulatory procedures would have several practical disadvantages. A bifurcated framework would lead to litigation and confusion, while impairing the development of competition from new carriers on comparable terms.

GSA urges the Commission to be especially cautious in evaluating the CALLS proposal. The CALLS membership is a subset of price cap LECs and IXCs, and there is no evidence that any other group with interests in the matter — including competitive LECs, state regulators and end users — was consulted or invited to participate in the development of the proposal. GSA urges the Commission to fully consider the views of these additional parties, and then to adopt a regulatory scheme that will apply equally to all.

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11 Telecommunications Act of 1996, Pub. L. No. 104–104, 110 Stat. 56, *codified at* 47 U.S.C. §§ 151 *et seq.* ("Telecommunications Act").

12 *Id.*, Section 251(c)(2).

13 *Id.*, Section 3(a).

IV. THE COMMISSION SHOULD MODIFY THE CALLS PROCEDURES CONCERNING PICCs FOR BUSINESS MULTI-LINES.

A. PICC revenue requirements for business multi–lines should be recovered directly from subscribers.

The CALLS members explain that one benefit of the plan is simplification of common line rate structures because SLCs and PICCs are "ultimately unified into a single charge, which can be deaveraged."[14] On further examination, however, the plan is not fully unified, and equal benefits are not accorded to users of business multi–lines.

Under the CALLS plan, SLCs and PICCs for primary residential lines, non–primary residential lines and single business lines are combined into a single end user charge.[15] However, for business multi–lines the SLCs and PICCs are not combined, and PICCs will continue to be charged to IXCs by the incumbent LECs.[16]

The plan's proponents do not explain why SLCs and PICCs for business multi–lines are treated differently in this respect. Presumably, the reason for maintaining this distinction is the claim that the business multi–line PICC will be abolished completely over time.[17] Indeed, the business multi—line PICC ranks high in the order of reductions in user charges as the total common line revenue requirement (per–line) shrinks with increases in calling volumes and overall LEC productivity improvements. Moreover, the CALLS plan provides that an incumbent carrier may not deaverage its SLC until its multi–line business PICC has been completely eliminated.[18]

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14 Notice, Appendix A, pp. 7–8.

15 *Id.*, p. 8.

16 *Id.*

17 *Id.*

18 *Id.*

GSA concurs with the proposal for LECs to combine their SLC and PICC revenue requirements. Indeed, in its recent Comments addressing charges for "low volume" long distance users, GSA stated that the PICC revenue requirement should be met entirely by flat monthly per–line charges that are levied directly on end users by LECs.[19] However, as GSA explained, the PICCs for <u>all</u> types of lines — primary residential, non–primary residential, business single lines, <u>and</u> business multi–lines — should be billed directly, because users of <u>all</u> of these types of access facilities have been victims of confusion and inequities inherent in the present procedure of passing charges through IXCs.[20]

When the Commission modified the system of interstate access charges for price cap LECs in 1997, it prescribed a common line rate structure for price cap LECs that was designed to align cost recovery with the manner in which costs are incurred.[21] However, while there are no differences in the costs of access facilities, business multi–lines have always carried more than a proportionate share of the burden in meeting the interstate revenue requirement. For example, the SLC ceiling is $3.50 for primary residential lines and single business lines, but the $9.20 ceiling for business multi–lines is three times as great.[22] Similarly, PICC ceilings for business multi–lines have always been much greater than PICC ceilings for other types of lines. The current ceilings are $1.04 for residential and single business lines, $2.53 for non–primary residential lines, and $4.31 for business multi–lines.[23] Since the Commission

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19 *In the Matter of Low–Volume Long Distance Users*, CC Docket No. 99–249, Comments of GSA, pp. 2–5.

20 *Id.*, p. 8.

21 *In the Matter of Access Charge Reform*, CC Docket No. 96–262 *et al.*, First Report and Order, released May 16, 1997, *para.* 36.

22 *In the Matter of Low Volume Long Distance Users, CC Docket No. 99–249, Notice, para. 8.*

23 *Id.*, para. 9.

has allowed IXCs to pass PICC costs on to their own customers, the higher costs of greater business multi–line PICCs has been shouldered by business users.

There is no economic basis for these rate differentials, and similarly no reason for continuing to differentiate business multi–lines by collecting their PICCs through IXCs while PICCs for other types of lines are billed directly. Users of business multi–lines have also experienced widespread difficulties with billings of PICC charges by IXCs. For example, as GSA explained in its Comments in CC Docket No. 99–249, Federal agencies have suffered problems with billings of PICCs, including errors in charges and "double–billing" of PICCs for the same line by multiple carriers.[24]

In CC Docket No. 99–249, another group of large users, the Ad Hoc Telecommunications Users Committee ("Ad Hoc"), explained the benefits of requiring LECs to bill PICCs directly to end users.[25] For example, Ad Hoc explained that direct billing would ensure that end users rather than IXCs receive the benefits of any reductions in PICCs, and also ensure that end users pay only the actual PICCs rates established in the respective incumbent LECs' tariffs rather than an amount inflated by IXC mark–ups or averaging procedures.[26]

In summary, GSA urges the Commission to modify the CALLS plan so that business multi–line PICCs are also billed directly to end users. With this procedure, consumers with all types of lines would receive the benefits of direct billing of the total non–traffic sensitive revenue requirement for access lines.

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24 *In the Matter of Low–Volume Long Distance Users*, CC Docket No. 99–249, Comments of GSA, p. 6.

25 *Id.*, Comments of Ad Hoc, p. 7.

26 *Id.*, pp. 7–8.

B. Ceilings for business multi–line PICCs should be set lower than CALLS recommends.

Although continuing to recover the PICC revenue requirement for business multi–lines through IXCs, the CALLS plan provides a reduction in the cap for these charges. For participants in the proposed plan, the business multi–line cap would be reduced to $4.00 per month per line.[27]

The proposed cut of 31 cents per month is an eight percent reduction in the present cap for business multi–lines. This reduction is inadequate. GSA recommends that if the Commission decides to continue the policy of different PICC caps for various groups of access facilities, PICC caps for both business multi–lines <u>and</u> non–primary residential lines should be set at $3.00 per month. Indeed, this lower limit is appropriate regardless of whether PICCs are billed to end users or to IXCs.

According to a report released by the Industry Analysis Division in September 1999, business multi–line PICCs for RBOCs range from $0.04 to $4.31 per line per month.[28] Only one RBOC is at the $4.31 ceiling, and the average PICC is only $2.77 for all of these carriers.[29] The average PICC for all LECs under price cap regulation is $2.94.[30]

A $3.00 per line per month cap for business multi–line PICCs is above the average charge for all price cap LECs. Several carriers currently employ business multi–line PICCs in the range of $3.00 to $4.31, and these carriers would be required to reduce their charges under GSA's proposed plan. Thus, GSA has provided for an increase ($2.53 to $3.00) in the non–primary residential line PICC cap, which carriers

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27 Notice, Appendix A, p. 12.

28 Common Carrier Bureau, Industry Analysis Division, *Trends in Telephone Service*, September 1999, Table 1.3.

29 *Id.*

30 *Id*

with higher PICC revenue requirements could use if necessary to compensate for a reduction in business multi–line PICCs.

GSA's proposal more nearly equalizes the PICCs employed to recover non–traffic–sensitive costs for the various types of lines, still leaving the cap for primary residential lines at its current and much lower value. Thus, the proposal more closely aligns rates with costs, as the Commission intended in initiating access charge reform.[31]

V. CARRIERS SHOULD NOT BE AUTHORIZED TO RECOVER UNIVERSAL SERVICE CONTRIBUTIONS AS A PERCENTAGE OF RETAIL REVENUES.

Another feature of the proposed plan is to modify the requirement for incumbent LECs to recover USF contributions through adjustments in price cap baskets and to allow the LECs to establish a specific rate element for that purpose.[32] The only stated constraint on incumbent LECs is that the new USF rate element must be charged to all users. Under the plan, LECs would be permitted to assess the rate element either on a per–line basis or as a percentage of interstate retail revenues.[33] Moreover, LECs would also be allowed to combine the USF rate element with other rate elements employed for billing end users.[34]

GSA urges the Commission not to authorize carriers to recover USF contributions by charges levied as a percentage of revenues. The <u>costs</u> of access do not depend on revenues, traffic volumes, or any factor except the number of lines. As GSA has explained, recovery of non–traffic–sensitive costs through a charge related to

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31 *In the Matter of Access Charge Reform*, CC Docket No. 96–262 *et al.*, First Report and Order, released May 16, 1997, *para.* 36.

32 Notice, Appendix A, p. 7, Section 1.1.

33 *Id.*, Section 1.2.

34 *Id.*

revenues or another usage–based measure is an economically inefficient procedure.[35] Indeed, such a procedure would artificially suppress demand for telecommunications services, increase the costs of services for most subscribers, and impair the development of competitive alternatives that will be available for all users.

Moreover, recovery of USF contributions though a revenue–based charge is not justified as a means of helping to ensure universal service. Indeed, comments submitted in the proceeding concerning "low volume" usage show that it is not correct to assume low–volume users are generally low–income users who require special regulatory protections. Indeed, a study performed and presented in an affidavit by a major IXC shows that there is little or no correlation between income and long–distance usage.[36]

The Commission took steps to eliminate the economically inefficient procedure of recovering non–traffic–sensitive costs through usage charges in initiating access reform for price cap carriers several years ago.[37] In continuing to address access charge reform and universal service initiatives, the Commission should continue to ensure that all costs related to access — or improving the opportunities for more consumers access the telecommunications network — are recovered through charges that do not depend on usage volumes or total revenues.

35 *In the Matter of Low–Volume Long Distance Users*, CC Docket No. 99–249, Comments of GSA, pp. 2–5.

36 *Id.*, Comments of AT&T, pp. 20–22; and accompanying Declaration of Gregory L. Rosston.

37 *In the Matter of Access Charge Reform*, CC Docket No. 96–262 *et al.*, First Report and Order, released May 16, 1997, para. 36.

VI. CONCLUSION

As a major user of telecommunications services, GSA urges the Commission to implement the recommendations set forth in these Comments.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I, MICHAEL J. ETTNER, do hereby certify that copies of the foregoing "Comments of the General Services Administration" were served this 12th day of November, 1999, by hand delivery or postage paid to the following parties.

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